Appendix B - Executive Summary

City of Wichita
US EPA WIFIA Program, Letter of Interest

1.0 Executive Summary

The City of Wichita (City) appreciates the opportunity to submit our Wichita Water and Wastewater Infrastructure Improvements (project) for funding consideration under the Water Infrastructure Finance and Innovation Act (WIFIA) Letter of Interest (LOI) process. The project consists of a new 120 million gallon per (MGD) day Northwest Water Treatment Plant (NW WTP) and Biological Nutrient Removal (WWTP BNR) regulatory upgrades to several wastewater treatment facilities. The project is to provide the local community, population of 550,000, with greater water and wastewater levels of service at reduced total lifecycle costs and overall risk by addressing aged infrastructure, providing water treatment facility redundancy, meet upcoming wastewater regulatory requirements, and reducing operations and maintenance costs, specifically energy and chemical costs, through greater treatment process efficiencies and automation. **This project is ready to commence** and the City is ready to deliver the $879 million project which is eligible for WIFIA funding consideration and needs support in the form of a total WIFIA loan of approximately $431 million.

For the past year, the City of Wichita has been working with CH2M in evaluating performance and risks of assets and operations and maintenance (O&M) practices to develop a long term optimized capital improvement plan (CIP) and optimized O&M plan to provide greater levels of service, reduced total lifecycle costs, and reduced risks. This project, consisting of the NW WTP and WWTP BNR upgrades, is a high priority of investment needs, and is a critical element to the City's strategy of optimizing the CIP and O&M of the water and wastewater utility.

The WIFIA loan provides the financial catalyst needed to successfully implement the project. By providing attractive financing costs of WIFIA, we anticipate that initial rate growth adjustments can be spread over a longer period of time and result in lower overall rate growth, easing the economic burden to the community.

1.1 Utility History and Project Plan

Over the last 10 years, the City Public Works & Utilities Department, similar to many municipal utilities throughout the country, has experienced unprecedented business challenges such as aging infrastructure, workforce shortages, regulatory and climate change, growth, and financial constraints. To address these challenges, in 2015, the City competitively selected the team of CH2M, Table Rock Capital, and Goldman Sachs to assess the City's utility and develop innovative approaches to optimize O&M practices for highest levels of service and lowest lifecycle costs, optimize CIP investment for reduced risk and lowest lifecycle costs, and explore alternative finance and project delivery options. This effort has been recently completed and includes a Comprehensive Asset Management Plan for utility optimization that is currently being implemented.

The developed 10-year optimized CIP investment for the entire water and wastewater utility is approximately $1.87 billion which addresses both deferred maintenance of existing infrastructure as well as new infrastructure identified in the soon to be finalized utility Master Plan Update. These infrastructure investments have been prioritized based on risk of failure as well as desired levels of

service. The two most significant, and highest priority, infrastructure investments include the NW WTP and WWTP BNR projects which are being submitted for WIFIA funding consideration.

The NW WTP has been in the City's planning documents since 1993 and has been considered for additional treatment capacity and to provide a second, fully redundant treatment facility. While the existing 1940 water treatment plant has served the community well, it has reached the end of its useful life and in need of significant investment. The intent is to construct a new $524 million, 120 MGD NW WTP on a greenfield site, on City owned property, to provide for increased levels of service, greater O&M efficiency, risk reduction and redundancy, and to allow the existing water treatment plant to be completely offline for upgrades at significant costs savings. A Business Case Evaluation (BCE) and Value for Money (VfM) analysis has been completed exploring different technologies, delivery and financing for the NW WTP. While this WIFIA LOI is focused on more traditional technology, delivery and financing options for the NW WTP, the City intends to further analyze options throughout the WIFIA loan application process to determine the optimum solution. Once the delivery alternative is decided, the procurement process to select a delivery partner will be competitive.

The WWTP BNR has been considered since 2005, as demonstrated in Master Plan Updates, as well as the development of a BNR feasibility study for the City's largest wastewater treatment facility, WWTP No. 2. Through recent discussions with the Kansas Department of Health and Environment, we are anticipating the facility being required to meet BNR limits by the start of 2028. The intent is to upgrade existing wastewater treatment facilities, at a cost of $355 million, to meet the upcoming regulatory requirements, increase reliability of existing assets, reduce odors from the facilities, and provide a more robust treatment system minimizing risk of failure and permit violation. A BCE analysis has also been completed exploring different approaches for the construction of the WWTP BNR upgrades. We anticipate the final selection of project direction to be completed within the WIFIA loan application process. Once the delivery alternative is decided, the procurement process to select a delivery partner will be competitive.

1.2 Project Operations and Maintenance Plan

The recently completed utilities optimization effort by the City and CH2M team, focused on O&M optimization and identified the strengths and weaknesses of the utility's O&M practices, explored City delivery of O&M, third party O&M support or staff augmentation, and third party outsourcing of O&M activities, and developed recommendations for future O&M activities which are currently being implemented. The findings of the O&M optimization effort is the City is well positioned and capable of delivering O&M activities but is considering third party support and training to transition to a world class utility.

For the NW WTP and WWTP BNR projects being considered for WIFIA funding, the BCE and VfM analysis explored alternative O&M delivery of these projects which are currently being considered. These include City delivery through third party delivery and the final O&M strategy will be confirmed during the WIFIA loan application process. Once the delivery alternative is decided, the procurement process, to select a delivery partner will be competitive.

1.3 Project Financing Plan

Historically, the City has primarily leveraged senior revenue bonds to fund capital improvement projects and has done so while maintaining a very strong aa- senior bond rating. The City intends to continue to issue senior revenue bonds, maintaining target debt coverage ratios and the existing bond rating for the $1.87 billion CIP; however, utilizing a WIFIA loan and combination of senior revenue bonds and/or subordinated debt and/or private financing to fund the NW WTP and WWT BNR projects at a combined capital cost of $879 million. If subordinated debt or private financing is utilized, the City intends to maintain our "All-In" debt coverage ratio at 1.30 or greater to maintain an investment grade bond rating.

Our financing plan currently considers WIFIA funding to be Pro-Rata with additional funding for the NW WTP and WWTP BNR projects. However, our financial model would be stronger if WIFIA was the last funding dollar applied and we hope to work within the WIFIA loan application process to determine the optimal funding schedule.

To achieve our financing plan to deliver the NW WTP and WWTP BNR upgrades, along with the remaining CIP, will require water and sewer rate increases in the range of 3% to 10% annually. Rate increases could be higher without WIFIA financing, creating a greater cost burden on utility customers.